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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 003906

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TAGS: [ECON](#) [EINV](#) [KIPR](#) [PREL](#) [CH](#) [TW](#)
SUBJECT: CROSS-STRAIT INVESTMENT - TAIWAN STILL HOLDS SOME
ADVANTAGES

Classified By: Classified by AIT Economic Section Chief Daniel K. Moore
, Reason 1.4 b/d

11. (C) Summary: Taiwan media often reports Taiwan firms in Mainland China are returning to invest in Taiwan. Taiwan encourages this kind of investment. However, many of these firms maintain and even expand large manufacturing operations in the Mainland at the same time they increase investment in Taiwan. These firms typically keep research, design, management and manufacturing of more advanced products in Taiwan because they feel their intellectual property is safer here. Liberalizing some cross-strait restrictions might encourage more Taiwan firms to employ this kind of cross-strait division of labor. End summary.

Investment Tide Flows Back to Taiwan?

12. (U) Taiwan media frequently report about Taiwan firms that have invested in Mainland China and subsequently return to invest in Taiwan. Recently, several newspapers reported a survey by the Ministry of Economic Affairs (MOEA) of firms interested in returning to invest in Taiwan. The survey indicated that 400 Taiwan firms in China were interested in investing in Taiwan again and cited 50 firms that had concrete plans to do so. Some of the factors frequently cited for causing Taiwan firms to return are rising wages and land costs in the PRC, energy and water shortages, and inadequate legal protections in the PRC.

The Authorities Hope So

13. (U) The Taiwan authorities have taken steps to encourage this kind of investment. This month, the Ministry of Economic Affairs established a service center to assist Taiwan firms in the Mainland that want to invest in Taiwan. The window helps in identifying finance sources and real estate in special industrial zones. Another program is the 006688 Program, so named because it offers firms space in certain industrial parks rent free for the first two years (00), at 60 percent of normal rental fees for the third and fourth years (66), and eighty percent for the fifth and sixth years (88). According to MOEA's Industrial Development Bureau (IDB),

which administers it, 774 firms have taken advantage of the program since it started in 2002. IDB officials claim that sixty-three of those firms had previously invested in the Mainland or planned to invest there. Although the program is open to any Taiwan firm, its primary target is firms that might otherwise choose to invest in the PRC due to lower real estate prices.

The Results are Mixed

14. (SBU) As surveys and MOEA reports suggest, some firms that have invested heavily in Mainland China have recently increased their investment in Taiwan, many taking advantages of MOEA's incentives. However, reports that suggest these firms have moved their China operations back to Taiwan may be misleading. AIT/T contacted three medium-sized enterprises that have been identified in media reports as firms that invested back in Taiwan. None of them decreased their operations in the PRC and many continue to expand there. In addition, the level of new investment in Taiwan varies significantly.

15. (C) Of the three firms AIT/T contacted, Founder Company had the largest expansion of investment in Taiwan. Founder, located in Taichung, is an aluminum casting company that has operated a sports-equipment plant in Shanghai since 2000. The plant employs approximately 2000 workers. In 2004, Founder decided to open an outdoor furniture factory in Taiwan, investing a total of NT\$760 million (about USD23 million). The Taiwan plant currently employs about 200. According to General Manager Lin Win-dow, Founder plans to invest another USD10 million in the plant next year and expand

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employment by about 50. However, Lin said the firm also plans to continue expanding operations in the Mainland as well. When asked if Taiwan's incentives had played a role in Founder's decision to invest back in Taiwan, Lin said the 006688 Program was useless, pointing out that real estate was still more expensive in Taiwan than in the PRC.

16. (C) Taiwan Pressed Flowers (TPF) Company of Tainan (southern Taiwan) is another firm identified as having reinvested back in Taiwan. It began investing in the PRC in 1989, but ran into legal difficulties there in 1994. In 2002, TPF President Ho Jian-hsiung decided to continue agricultural production of flowers in the PRC, but to consolidate all industrial processing in Taiwan. According to Ho, TPF now has approximately 600 employees at 3 farms in the Mainland. The firm has only 20 employees in Taiwan engaged in design, marketing and administration. Manufacturing processes are contracted to various firms in Taiwan.

17. (C) Okuma Fishing Tackle Co. in Taichung is the world's third largest fishing tackle manufacturer. It first invested in the PRC in 1991. According to Manager Yu Jun-jie, it now owns 10 factories in the Mainland employing approximately 2,000 employees. Last year, it invested NT\$400 million (about USD12.2 million) to buy an office building in Taichung. However, it did not increase employment or expand operations in Taiwan. Instead, it consolidated its various subsidiary units in the new office space. Previously, they had been located in several different locations. The firm employs 130 in Taiwan.

Taiwan's Attraction - Trust

18. (C) The three firms all indicated that intellectual property protection was a primary reason for keeping some

operations in Taiwan. Okuma's Yu noted that fishing tackle producers in the Mainland have repeatedly copied Okuma's designs. The firm has kept research, design and production of advanced components in Taiwan. TPF's Ho explained that his firm keeps manufacturing processes in Taiwan to protect the firm's specialized knowledge and patents from PRC employees. Similarly, Founder's Lin emphasized that being able to trust employees is the most important advantage in Taiwan. He explained that the value of the designs for the outdoor furniture it produces in Taiwan is much higher than the value of the designs for the sporting goods products it makes in the Mainland. He noted that the firm paid NT\$14 million in royalties to European designers last year (about US\$425,000).

Comment - Play to Your Strengths

¶9. (C) Our discussions with these businesses suggest that Taiwan is having some success in attracting investment that might otherwise go across the Strait. However, we believe the majority of these firms that have "returned" to Taiwan, continue even larger operations in the Mainland. In addition, Taiwan programs to attract investment back to the island do not appear to be the deciding factor for these firms. Neither are some of the other often cited disadvantages of doing business in the Mainland, specifically rising wages, higher real estate prices, and shortages of energy, water and other inputs. Among the firms we talked to, superior intellectual property protection was the most attractive feature of Taiwan's investment climate.

¶10. (C) Two of the firms noted that Taiwan's cross-Strait economic restrictions have little impact on their business. Yu pointed out that Taiwan businessmen are very "flexible" and have found ways to work around them. However, Taiwan should do more to encourage firms to pursue the same kind of division of labor that Okuma, Founder and TPF have employed, keeping research, design, advanced manufacturing and management functions in Taiwan while moving labor-intensive manufacturing to the

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Mainland. Liberalizing certain cross-Strait restrictions could further that goal. Establishing direct transportation links would be a good place to start.
YOUNG